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11/19/96

KIAWAH ISLAND UTILITY, INC.

DOCKET NO. 96-168-W/S

S.C. PUBLIC SERVICE COMMISSION

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PRE-FILED TESTIMONY OF WALLACE R. DUBOIS

BEFORE THE SOUTH CAROLINA PUBLIC SERVICE COMMISSION

Testimony Prepared: November 18, 1996

Hearing Date: December 2, 1996

S.C. PUBLIC SERVICE COMMISSION  
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UTILITIES DEPARTMENT

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Wallace R. DuBois. I live at 137 Hooded Merganser Court on Kiawah Island.

Q. PLEASE GIVE YOUR BACKGROUND AND EDUCATION.

A. My formal education consists of a Bachelor of Business Administration degree with a major in accounting from Siena College, Loudonville, New York.

My work experience was in the field of accounting and finance, the last 26 years were with the International Business Machines Corp. ("IBM") of which the last 8 were as Assistant Corporate Controller.

My involvement in the Kiawah Island Utility, Inc. rate cases of 1985, 1990 and 1992 has provided me with an understanding of the rate-making process. I wish to point out that my testimony in the 1985 and 1992 rate cases was to challenge what the Company was seeking in the way of rate increases, however, in 1990 I testified as a member of the property

RETURN DATE: \_\_\_\_\_  
SERVICE: 2/1/97

The President of the Utility Company is Charles P. Darby, III, who is a Managing Director of Kiawah Resort Associates, L.P. with responsibility for the on Island operations.

The Vice President of the Utility Company is Leonard L. Long, Jr., who is a Managing Director of Kiawah Resort Associates, L.P.

The Treasurer of the Utility Company is Townsend P. Clarkson, who is the Chief Operating Officer of Kiawah Resort Associates, L.P.

We have only one level of oversight which is you, the Commission, whereas the ratepayers of independent companies have four levels, the management, the directors, the stockholders and you.

As a result of this interrelationship, we the ratepayers do not have the same protection as the ratepayers of independent utility companies, especially when dealing with the developer.

Our concerns as they relate to the rate application fall into the following categories:

1. Items of expense that should not have been included.
  - a. Eugenia Avenue

- b. Unidentified Assets
  - c. Fire Hydrants
  - d. Land Lease--Holding Pond
  - e. Land Lease--Down Island Storage Facility
- 2. Offsets to expenses that were not included.
  - a. Tap In Fees
  - b. Availability Fees (Building Incentive Fees)
- 3. Items of expense that are high when compared to the prior year or years.
  - a. Legal Fees
  - b. St. John's Water Tank Painting
  - c. Sludge Expense
- 4. General concerns.
  - a. Interest Rate Adjustment
  - b. Cross Collateralization/Cross Default

Q. WHAT ITEMS DO YOU FEEL SHOULD BE ADJUSTED IN THE RATE APPLICATION?

A. We believe that the following adjustments should be made to the rate application:

- 1. ITEMS WHICH SHOULD NOT BE INCLUDED
  - a. EUGENIA AVENUE SEWER PROJECT

Adjustment #5 - Gross Plant of Exhibit D includes the cost for the Eugenia Avenue Sewer Project amounting to \$500,000.

From day one, it has been the intent that the property owners on Eugenia Avenue would pay for the cost of installing the sewers and any related costs and expenses, including interest expense.

To include the cost of this project in the rates of all ratepayers of the Utility Company would be unfair. All of the other property owners on Kiawah paid for their sewer lines and the related equipment in the purchase price of their property.

We ask that this item be disallowed as part of the rate application.

The impact on the rate application by eliminating this project is as follows:

1. Adjustment #5 to Plant in Service of \$2,774,529 in Exhibit D should be reduced by \$500,000.
2. Adjustment #6 to accumulated Depreciation/Amort. of \$69,944 in Exhibit

D should be reduced by \$12,500 (\$500,000 x 2.5%).

3. Long-term Debt of \$8,004,455 and in turn the Capital Structure in Exhibit D--Schedule 4 should be reduced by \$500,000.
4. Construction Work in Progress (\$551,499) should be reduced by costs relating to Eugenia Avenue Sewer project (\$30,871).
5. The embedded interest rate and the interest expense (after interest synchronization) of \$527,623 on Exhibit D--Schedule 4 should be reduced accordingly.

b. UNIDENTIFIED ASSETS

The next item relates to the \$891,660 of "unidentified assets" which was charged to the Utility Company in 1991 by the developer.

The adjustment made by the Commission in its December 15, 1992 Order No. 92-1030 for these "unidentified assets" does not make the Utility Company or the ratepayers whole.

In order to better understand the issue it might be appropriate to recap what transpired prior to and during the 1992 hearings.

In Townsend Clarkson's testimony at the November 5, 1992 hearing, he indicated that the Utility Company had its engineering firm, Thomas & Hutton, conduct a study in 1991 to determine the value of the Utility Company's plant and transmission assets.

Since the detailed records supporting the asset values were non-existent it was necessary for Thomas & Hutton to reconstruct values based in some cases on contract amounts and in other cases based on estimates.

The net result was that this study showed that there was approximately \$1,300,000 of "unidentified assets" that were not on the Utility Company's books.

Since the Utility Company could only borrow an amount that would cover \$891,660 of these "unidentified assets" KRA, the developer and parent company donated the remaining \$414,000 (p. 98, 11/5/92 transcript, Vol. 1 of 4).

It should be understood that both the Utility Company and KRA management agree that none of the costs relating to these "unidentified assets" were

incurred during the time that they had been the developer of the Island or the owner of the Utility Company. All costs were incurred prior to June 1988, by the prior developer, the Kuwaitis (p. 105, 11/5/92, Vol. 1 of 4).

It was and is our position that the \$891,660 of "unidentified assets" were donated to the Utility Company by the Kuwaitis. Under cross examination at the November 5, 1992 hearing Townsend Clarkson agreed that he as well as Thomas & Hutton didn't know what had been donated by the Kuwaitis (p.106, 11/5/92 transcript, Vol. 1 of 4).

In any event, whether the Kuwaitis had donated or not is immaterial, since the costs that were not charged to the Utility Company would have remained on the developer's books. These costs would have been included in the cost of the land and recovered in the selling price of the property sold by either the Kuwaitis or KRA. To look to the Utility Company's ratepayers to pay for it again is outrageous.

The following excerpts are from pages 24 and 25 of the Commission's Order No. 92-1030, dated December 15, 1992:

1. ".....the Commission is of the opinion that for ratemaking purposes, these assets were not identifiable as to whether or not they had been previously donated to the utility company by the predecessor parent, or whether or not they still existed on the parent company's books."

2. ".....the Commission is of the opinion that the utility company's ratepayers should not be responsible for paying for assets that cannot be properly identified on either Company's books. Therefore, the amount of \$891,660 which was identified by the Thomas & Hutton study as "unidentifiable", will not be allowed in the Company's rate base for ratemaking purposes."



3. "Accordingly, depreciation and accumulated depreciation are affected by this adjustment. Depreciation expenses will decrease by \$29,617 and accumulated depreciation will decrease by a like amount. As a result of the elimination of the unidentified assets from the Company's rate base, interest expense is reduced by \$29,655. This is caused by Staff's interest synchronization adjustment."

With regard to Excerpt No. 3 above, it should be pointed out that the interest synchronization adjustment made by the Staff does not make either the ratepayers or the Utility Company whole. Interest expense on the \$891,660 for the unidentified assets amounts to \$75,880 ( $\$891,660 \times 8.51\%$ ) per year, whereas the interest synchronization adjustment only reduced interest expense by \$29,655. A shortfall of \$46,225.

The imputed interest in Calculation "A" in Exhibit 1 attached, which is before the elimination from

the rate base of the \$891,660 of unidentified assets by the PSC, was \$279,229.

The imputed interest in Calculation "B" in Exhibit 1 which is after the PSC's elimination of the \$891,660 of unidentified assets from the rate base was \$248,907. A reduction of \$30,322 which closely equates to the \$29,655 addressed in Excerpt 3 above.

It should be noted that I did not have the exact numbers used by the staff in computing the \$29,655. However, I believe the results are close enough for this purpose.

This transaction should have been reversed with the parent company, the developer, being required to repay the Utility Company, which in turn could have paid off the loan.

If this had been done the Utility Company's long term debt and its total capital structure would have been \$891,660 lower.

Calculation "C" in Exhibit 1 is calculated as though the long-term debt for the \$891,660 had been

repaid. This reduces the amount of long-term debt and the total capital structure. The imputed interest would have been \$213,963 or \$34,944 lower than the staff's calculation of \$248,907. See Calculation "B".

If it is the Commission's position that the ratepayers should not be responsible for paying for the assets, as stated in excerpt #2 above, then the ratepayers should not be required to pay for the loan or any portion of the interest. A loan for which the Utility Company got nothing.

It is important to understand that if this inequity is not corrected it will continue forever. The cash used for the payment of interest and the repayment of the \$891,660 loan will be lost to the Utility Company forever. This cash could be used to pay off some of the Company's other debt or would be available to reduce the need for future borrowings, which in turn would reduce future interest expense payments.

In order to provide equity to both current and future ratepayers, it is imperative that the Commission require the developer, Kiawah Resort

Associates, L.P. to repay the Utility Company the \$891,660 plus all interest payments to date, net of Federal taxes.

At the end of 1996 this will amount to \$1,251,550. See Exhibit 2 attached.

Another concern relating to these unidentified assets is that the Commission's Order No. 92-1030 granted the Utility Company a \$360,980 rate increase based on 8.50% operating margin. Had the interest synchronization calculation been made as if the debt had not been incurred, the long-term debt would have been reduced by the \$891,660, and the increase based on an 8.50% operating margin would have been only \$305,114 or \$55,866 lower. See Calculation "C" in Exhibit 1 and 1a.

This has resulted in the ratepayers being overcharged by over \$223,000 for the period 1993 through 1996. We ask that the commission take this into consideration when making any decisions regarding this rate application.

The impact of this item on the rate application is as follows:

1. Interest Expense of \$388,610 in Exhibit D should be reduced by \$91,562. This is the impact of not having required the developer to repay the \$891,660 in 1992. See Exhibit 2 attached.
2. Long-term Debt of \$8,004,455 in Exhibit D--Schedule 4 should be reduced by \$1,251,550. This represents the repayment of the \$891,660 plus the interest expense net of taxes. See Exhibit 2 attached.
3. The embedded interest rate and the interest expense (after interest synchronization) of \$527,623 on Exhibit D--Schedule 4 should be reduced accordingly.

c. FIRE HYDRANTS

In the 1992 hearings we took exception to a retroactive sale to the Utility Company, by the developer, of fire hydrants amounting to \$139,807 (227 hydrants x \$700 average cost = \$158,900 less \$19,093 which was on the Utility's books).

The \$158,900 represents the total estimated cost, based on the Thomas & Hutton study previously

referred to, for all fire hydrants at that point in time.

Our position was that these hydrants (with a cost of \$139,807) were on distribution lines and had been donated to the Utility Company by the Kuwaitis. The \$19,093 cost for fire hydrants on the Utility Company's books represented those on transmission lines.

As I pointed out previously, under cross examination at the November 5, 1992 hearing, Townsend Clarkson agreed that he, as well as Thomas & Hutton, didn't know what had been donated by the Kuwaitis.

In fairness to the ratepayers, we request that this issue be revisited.

Since then, we have surveyed a number of utility companies in South Carolina and have determined that the standard practice is that the cost of fire hydrants on distribution lines is absorbed by the developer, who in turn donates them to the utility company.

What we the ratepayers of the Kiawah Island Utility, Inc. are seeking is the same treatment as the ratepayers of other utilities.

In any event, whether the Kuwaitis had donated or not is immaterial, since the costs that were not charged to the Utility Company would have remained on the developer's books. These costs would have been included in the cost of the land and recovered in the selling price of the property sold. It is wrong to have the ratepayers pay for them again in the utility rates.

What I have stated in item "b" above about the \$891,660 loan for the unidentified assets and the related interest payments also applies to the \$138,907 loan for these hydrants. The cash used to pay the interest and repay the loan will be lost to the Utility Company forever.

We ask that the Commission revisit its decision of 1992 and require the developer to repay the utility company the \$138,907 plus all interest payments to date, net of taxes. At the end of 1996 this will amount to \$202,930. See Exhibit 3 attached.

The impact on the rate application is as follows:

1. Interest Expense of \$388,610 in Exhibit D should be reduced by \$14,846. This is the impact of the utility company having to pay interest on the original loan of \$138,907 plus all subsequent interest payments, net of taxes. See Exhibit 3 attached.
2. Depreciation/Amortization Expense of \$326,294 in Exhibit D should be reduced by \$3,084 ( $\$138,907 \times 2.22\%$ ).
3. Accumulated Depreciation/Amortization of \$2,652,928 in Exhibit D should be reduced by \$13,878 ( $\$3,084 \times 4.5$  years, 1991-1995).
4. Plant in Service of \$12,183,920 in Exhibit D should be reduced by \$138,907.
5. Long-term Debt of \$8,004,455 in Exhibit D--Schedule 4 should be reduced by \$202,930. See Exhibit 3 attached.
6. Interest Expense (after interest synchronization) of \$527,623 on Exhibit D--Schedule 4 should be adjusted accordingly.

d. LAND LEASE--HOLDING POND



Operating expenses on Exhibit D of the rate application includes \$33,000 for 6 months rental expense.

A lease was entered into between the developer and the utility for rental of land adjacent to the existing utility site for the construction of an additional holding pond for effluent storage. This effluent when blended with well water and potable water is used to irrigate the golf courses.

This additional storage was required primarily as a result of the developer having built the River Course golf course.

The construction of this new golf course was done by the developer to enhance the value of his property surrounding the golf course.

The developer gets high prices for his property and the Utility Company and the ratepayers get the following:

1. A lease agreement charging \$66,000 rental in the initial year, with increases each year based on the increase in the Consumer Price Index ("CPI") (however, if

the CPI were to decrease there will be no decrease in the rental amount). At the end of each of the 2 five year periods the rental will be determined based on 12% of the then appraised value (however, if 12% of the new appraised value results in a lower rental amount there will be no decrease).

2. The lease provides for 2 five year periods, but is silent as to what happens after that.

Does this sound like a lease that would be entered into by an independent utility company?

When you look at this from an economic standpoint, you can only conclude that other utility companies that are not owned and managed by the developer would not have entered into such an arrangement.

Estimated revenue for effluent blend water per golf course <sup>(a)</sup>	\$75,000
Less: Est. Costs and expenses	
Rental expense	\$66,000
Cost of potable water <sup>(b)</sup>	13,000
Depreciation expense (to be supplied)	xxxxxx
Interest expense (to be supplied)	<u>xxxxxx</u>

Amount available to cover operating,  
maintenance, overhead and  
profit(?)  
(to be supplied)

\$xxxxxxx

- a) 1995 cost of water for Turtle Point Course.
- b) Cost based on average number of thousand gallons potable included in the blend.

This does not make good business sense. An independent utility company would reject this type of arrangement and require that at a minimum the land be donated.

We recommend that the Commission require that this land lease be rescinded and that the developer be required to donate the land and refund all rental payments to date.

The impact on the rate application is as follows:

Operating expenses should be reduced by  
\$33,000 for the 6 months rental expense.

e. LAND LEASE--DOWN ISLAND STORAGE FACILITY

While not included in the rate application, we believe it would be appropriate to address this item at this time, since it is similar to the previous item.

Effective in 1996, is a second land lease agreement with an initial yearly rental of \$20,400. This lease contains the same stipulations as the above mentioned lease.

This lease covers the land on which the Utility Company built the Down Island Storage Tank and pumping facility.

As Mr. Mitchell Bohannon pointed out in his pre-filed testimony, this facility was recommended as a future improvement to the water system in a 1984 CH<sub>2</sub>M Hill, Inc. report in order to provide for the future development of the Island. However, the timing for the construction of this facility was accelerated by the dramatic increase in irrigation usage and also by the need to upgrade the system to increase water available for fire protection on the Island.

The increased irrigation demands and water flow and pressure demands for fire protection are directly related to the construction and landscaping requirements set by the developer through its Architectural Review Board. In addition, the high prices charged for building lots has resulted in

larger homes which, in turn, require greater irrigation and fire protection needs.

If we set aside the timing issue, we come back to the fact that this facility was required for the development of the eastern end of the Island.

We believe that an independent utility company would take the position that they would provide the service but the developer must donate the land.

Although this does not affect the current rate application, we recommend that in order to avoid having to confront this issue in the next application, this land lease be rescinded and the developer be required to donate the land. In addition, rental payments to date be refunded to the Utility Company.

We find it difficult to believe that any independent utility company would construct \$1.5 to \$2.0 million of immovable assets on two leased sites. It certainly places the Utility Company at the mercy of the developer.

2. OFFSETS TO EXPENSES THAT WERE NOT INCLUDED

a. Tap In fees

The years 1992 - 1994 were not included in the rate application.

<u>Year</u>	<u>Amount</u>
1992	\$ 64,000
1993	86,250
1994	<u>90,750</u>
Total	<u>\$241,000</u>

b. Availability Fees (Building Incentive Fees)

The years 1992 - 1995 were not included in the rate increase application.

In item #4 of our First Set of Interrogatories we asked for the amounts of Building Incentive Fees (Availability Fees) collected by Kiawah Resort Associates, L.P. for the years 1992, 1993, 1994 and 1995.

The response was as follows:

"The Applicant objects to this interrogatory as it is not relevant to the Utility, the Utility does not collect Building Incentive Fees, and

therefore does not have any information on Building Incentive Fees."

This is in direct defiance to the Commission's Order No. 90-1080 which states on page 11 the following:

".....The Company's position is that since there are no availability fees in existence today, such an adjustment cannot be made. The Commission finds that Staff's adjustment is in compliance with its previous order and approves this adjustment. There is a fee currently in existence called a building incentive fee which is for the same purpose as the former availability fee, therefore, the adjustment must be made."

It should also be noted that this adjustment was also made in the 1992 rate case.

Without the relief of treating Availability Fees (Building Incentive Fees) as contributions in aid of construction, the current ratepayers would be required to underwrite the up front costs of the Utility Company for areas being developed by the developer.

We recommend that lacking such information the adjustments be made based on the 1991 amount of \$120,032 with 4% increases in each succeeding year. (The 4% increase is based on the average increase in unimproved lots in recent years.)

<u>Year</u>	<u>Amount</u>
1992	\$124,833
1993	129,826
1994	135,019
1995	<u>140,420</u>
Total	<u>\$530,098</u>

The impact on the rate application is as follows:

- a. Adjustment #7 to Contribution in Aid of Construction of \$1,635,420 on Exhibit D should be increased by \$771,098 (Tap In Fees \$241,000 plus Availability Fees \$530,098 adjusted by



the appropriate amount of accumulated amortization).

- b. Depreciation and amortization expense should be reduced by the appropriate amount for amortization of the above.

3. ITEMS OF EXPENSE THAT ARE HIGH WHEN COMPARED TO THE PRIOR YEAR OR YEARS

a. LEGAL FEES

The legal fees for the 1995 amounted to \$53,595 versus \$22,187 in 1994 and \$7,250 in 1993. Approximately 50% or \$26,265 of the 1995 amount related to a lawsuit. We recommend that 1995 legal expenses be averaged over a three (3) year period, thereby reducing legal expenses by \$25,918.

This is the same treatment that the Utility Company gave to engineering fees in the rate application.

b. ST. JOHN'S WATER TANK PAINTING

Repairs and maintenance expense \$112,878 from Exhibit A of the rate application includes \$43,015 for the painting of the St. Johns Water Company's elevated tank. Since the last time any painting was done was prior to 1990, we recommend that this expense be averaged over six (6) years. This would

result in a reduction in repair and maintenance expense by \$35,846.

c. SLUDGE EXPENSE

Exhibit D of the rate application includes an estimate of \$50,000 (adjustment #4) for sludge removal from cell #3. This estimate has now been updated to \$97,612. Since this is the first time that this cost has been incurred since the early 1980's (per Mitchell Bohannon's pre-filed testimony, dated October 29, 1996, page 6) we recommend this be averaged over ten (10) years. This would result in the \$50,000 adjustment being reduced by \$40,239 (\$50,000 - 1/10 of \$97,612).

4. GENERAL CONCERNS

a. INTEREST RATE ADJUSTMENT

The interest rate used in the "after adjustments" section of Exhibit D--Schedule 4 of the rate application is 8.22%. We believe the correct rate should be 7.99%, which is the weighted average rate based on the projected debt structure. (Note: The 7.99% will be further reduced by the adjustments to long-term debt addressed throughout my testimony.)

b. CROSS COLLATERALIZATION/CROSS DEFAULT

Footnote Note I(b) - Contingencies in the December 31, 1995 audited financial statement addressed the following item, which we find very disturbing:

"In July 1995, the Company's loan agreement was modified to, among other things, cross-collateralize and cross-default the loan together with the acquisition and development loan from the same bank to Kiawah Resort Associates, L.P. (the parent). As of December 31, 1995, Kiawah Resort Associates, L.P. was indebted to this bank in the amount of \$11,180,414."

Would any independent company assume the responsibility for the debt of a developer, if he defaulted?

We are concerned with this exposure and question: Who is providing the appropriate oversight?

We recommend that the Commission require that the bank agreement be modified relieving the Utility Company of this responsibility for the developer's debt.

Q. DO YOU HAVE ANY RECOMMENDATIONS FOR THE COMMISSION?

A. Yes. In summary, we ask that the Commission do the following before issuing its Final Order:

KIAWAH ISLAND UTILITY, INC.  
RETURN ON EQUITY  
TEST YEAR ENDED 12/31/91

Exhibit 1

CALCULATION "A"

(PRIOR TO PSC'S ELIMINATION OF \$891,660 OF  
"UNIDENTIFIED ASSETS" FROM RATE BASE)

Description	Capital Structure	Ratio	As Adjusted				Effect of Proposed Increase			
			Rate Base	Embedded Cost/Return	Overall Cost/ Return	Income for Return	Rate Base	Embedded Cost/Return	Overall Cost/ Return	Income for Return
	\$	%	\$	%	%	\$	\$	%	%	\$
Long Term Debt	4,173,207	39.96	3,281,184	8.51	3.40	279,229	3,281,184	8.51	3.40	279,229
Common Equity	6,271,466	60.04	4,929,987	(1.82)	(1.09)	(89,679)	4,929,987	4.02	2.41	198,187
Total	10,444,673	100.00	8,211,171		2.31	189,550	8,211,171		5.81	477,416

Operating Margin

$$\frac{(89,679)}{1,920,374} = (4.67\%)$$

Operating Margin

$$\frac{198,187}{2,331,611} = 8.50\%$$

Amount of Increase = \$411,237

CALCULATION "B"

(PER PSC'S ORDER NO. 92-1030 WITH \$891,660 OF  
"UNIDENTIFIED ASSETS" ELIMINATED FROM RATE BASE)

	\$	%	\$	%	%	\$	\$	%	%	\$
Long Term Debt	4,173,207	39.96	2,924,877	8.51	3.40	248,907	2,924,877	8.51	3.40	248,907
Common Equity	6,271,466	60.04	4,394,634	(1.35)	(1.67)	(59,357)	4,394,634	4.41	2.65	193,832
Total	10,444,673	100.00	7,319,511		2.59	189,550	7,319,511		6.05	442,739

Operating Margin

$$\frac{(59,357)}{1,920,374} = (3.09\%)$$

Operating Margin

$$\frac{193,832}{2,281,354} = 8.50\%$$

Amount of Increase = \$360,980

CALCULATION "C"

(WITH CAPITAL STRUCTURE REDUCED BY \$891,660  
THROUGH REPAYMENT OF LONG TERM DEBT)

	\$	%	\$	%	%	\$	\$	%	%	\$
Long Term Debt	3,281,547	34.35	2,514,252	8.51	2.92	213,963	2,514,252	8.51	2.92	213,963
Common Equity	6,271,466	65.65	4,805,259	(.51)	(.33)	(24,413)	4,805,259	3.94	2.59	189,167
Total	9,553,013	100.00	7,319,511		2.59	189,550	7,319,511		5.51	403,130

Operating Margin

$$\frac{(24,413)}{1,920,374} = (1.27\%)$$

Operating Margin

$$\frac{189,167}{2,225,488} = 8.50\%$$

KIAWAH ISLAND UTILITY, INC.

CALCULATION "A"

COMPUTATION OF 1992 RATE INCREASE PRIOR TO PSC'S ELIMINATION  
OF \$891,660 OF UNIDENTIFIED ASSETS FROM RATE BASE

X = Amount of Increase

$$\begin{array}{rcl} \begin{array}{cc} \text{(Equity)} & \text{(After)} \\ -\$89,679 \text{ (Income)} + .7X \text{ (Taxes)} & \end{array} & & \begin{array}{c} \text{(Operating)} \\ \text{8.50\% (Margin)} \end{array} \\ \hline \begin{array}{cc} \text{(Operating)} & \text{(Amount of)} \\ \$1,920,374 \text{ (Revenue)} + X \text{ (Increase)} & \end{array} & = & \end{array}$$

$$-\$89,679 + .7X = .085 (\$1,920,374 + X)$$

$$-\$89,679 + .7X = \$163,232 + .085X$$

$$.615X = \$252,911$$

$$X = \$411,237$$

$$-\$89,679 + .7(\$411,237) = \$198,187 \text{ (Common Equity Income)}$$

CALCULATION "C"

COMPUTATION OF 1992 RATE INCREASE WITH CAPITAL STRUCTURE  
REDUCED BY \$891,660 THROUGH REPAYMENT OF LONG TERM DEBT

X = Amount of Increase

$$\begin{array}{rcl} \begin{array}{cc} \text{(Equity)} & \text{(After)} \\ -\$24,413 \text{ (Income)} + .7X \text{ (Taxes)} & \end{array} & & \begin{array}{c} \text{(Operating)} \\ \text{8.50\% (Margin)} \end{array} \\ \hline \begin{array}{cc} \text{(Operating)} & \text{(Amount of)} \\ \$1,920,374 \text{ (Revenue)} + X \text{ (Increase)} & \end{array} & = & \end{array}$$

$$-\$24,413 + .7X = .085 (\$1,920,374 + X)$$

$$-\$24,413 + .7X = \$163,232 + .085X$$

$$.615X = \$187,645$$

$$X = \$305,114$$

$$-\$24,413 + .7(\$305,114) = \$189,167 \text{ (Common Equity Income)}$$

## EXHIBIT 2

KIAWAH ISLAND UTILITY, INC.  
 AMOUNT TO BE REPAYED BY KIAWAH RESORT ASSOCIATES L.P.  
 LOAN AMOUNT PLUS INTEREST (NET OF FEDERAL TAXES)  
 ON \$891,660 FOR UNIDENTIFIED ASSETS  
 FOR THE PERIOD 7/91 TO 12/96

PERIOD	INTEREST EXPENSE	LESS: TAX RATE	TOTAL
7/91			\$ 891,660
6 mos. @ 8.51%	\$37,940	Loss	37,940
Balance 12/31/91			929,600
1992 @ 8.51%	79,109	Loss	79,109
Balance 12/31/92			1,008,709
1993 @ 8.51%	85,841	42.1%	49,702
Balance 12/31/93			1,058,411
1994 @ 8.51%	90,071	38.4%	55,484
Balance 12/31/94			1,113,895
1995 @ 8.22%	91,562	20.0%	73,250
Balance 12/31/95			1,187,145
1996 @ 8.22%	97,583	34.0%	64,405
Balance 12/31/96			\$1,251,550

## EXHIBIT 3

KIAWAH ISLAND UTILITY, INC.  
 AMOUNT TO BE REPAYED BY KIAWAH RESORT ASSOCIATES L.P.  
 LOAN AMOUNT PLUS INTEREST (NET OF FEDERAL TAXES)  
 ON \$138,907 FOR FIRE HYDRANTS ON DISTRIBUTION LINES  
 FOR THE PERIOD 7/91 TO 12/96

PERIOD	INTEREST EXPENSE	LESS: TAX RATE	TOTAL
7/91			\$138,907
6 mos. @ 8.51%	\$11,821	Loss	11,821
Balance 12/31/91			150,728
1992 @ 8.51%	12,827	Loss	12,827
Balance 12/31/92			163,555
1993 @ 8.51%	13,919	42.1%	8,059
Balance 12/31/93			171,614
1994 @ 8.51%	14,604	38.4%	8,996
Balance 12/31/94			180,610
1995 @ 8.22%	14,846	20.0%	11,877
Balance 12/31/95			192,487
1996 @ 8.22%	15,822	34.0%	10,443
Balance 12/31/96			\$202,930

BEFORE THE  
PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA  
Docket No. 96-168-W/S

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PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA  
Docket No. 96-168-W/S

CERTIFICATE OF MAILING

We hereby certify that on this 18th day of November, 1996, we served a copy of the Intervenor Kiawah Property Owners Group, Inc. foregoing Pre-filed Testimony of Wallace R. Dubois, upon:

F. David Butler, Esquire  
General Counsel  
South Carolina Public Service Commission  
Post Office Box 11649  
Columbia, South Carolina 29211

Lucas C. Padgett, Jr., Esquire  
McNair Law Firm  
140 E. Bay Street  
Post Office Box 1431  
Charleston, South Carolina 29402

Elliott F. Elam, Jr., Esquire  
Consumer Advocate  
S. C. Department of Consumer Affairs  
Post Office Box 5757  
Columbia, South Carolina 29250

Dennis J. Rhoad, Esquire  
34 Broad Street, Suite 200  
Charleston, South Carolina 29401

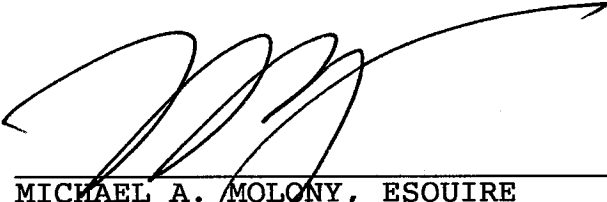


with a copy to:

John M.S. Hoefer  
Willoughby & Hoefer, PA  
1022 Calhoun St., Suite 302  
Columbia, South Carolina 29201

by first class mail, postage prepaid.

DATED at Charleston, South Carolina, this 18th day of  
November, 1996.



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MICHAEL A. MOLONY, ESQUIRE  
Young, Clement, Rivers and Tisdale  
28 Broad Street  
Charleston, South Carolina 29401

Charleston, South Carolina